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Indiana Department of Financial Institutions

# Your Own Home

Instructor Guide



Building: Knowledge,  
Security, and  
Confidence

FINANCIAL EDUCATION CURRICULUM

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# INSTRUCTOR INFORMATION

## Before the Session

To properly present the Your Own Home course, you should:

- Review all materials in the Instructor Guide and the Participant Take-Home Guide.
- Make copies of Participant Take-Home Guides.
- Copy slides (overheads) into transparencies or use PowerPoint Slide Presentation.
- When appropriate, prepare chart paper examples.
- Identify potential trouble spots in the exercises, as well as hints for assisting participants.
- Select and prepare anecdotes from real-world experiences that can be used to illustrate special scenarios, generate discussion, and maintain participant interest.

## Materials and Equipment

- Transparency projector or Computer projection for PowerPoint Slide Presentations
- Your Own Home transparencies or PowerPoint Slide Presentation
- Chart paper and easel
- Markers for chart paper and transparencies
- Name tents
- Pencils or pens for each participant
- Participant Take-Home Guides

## Instructor Steps

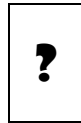
Step-by-step directions are provided for the instructor. The text below is an example of an instructor step:

Instructor Cue	Instructions
<div><p>You Will Know</p><hr/><ul style="list-style-type: none"><li>● The benefits and pitfalls of renting versus owning</li><li>● How to determine your readiness to buy a home</li><li>● Different mortgage programs</li><li>● Basic terms used in the mortgage process</li></ul><p>2</p></div> <p>Slide 2</p>	<ul style="list-style-type: none"><li>▶ Show Slide 2 (You Will Know).</li><li>▶ Review course objectives.</li></ul>

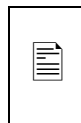
Generally, these steps enable the instructor to ask questions, provide explanations, show slides, hand out materials and introduce exercises.

## Icons

Icons alert the instructor to discussion questions, exercises, transitions, and summaries. They appear in the left margin:



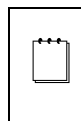
Ask questions or conduct a discussion.



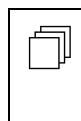
Distribute a hand out.



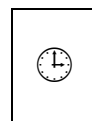
Explain.



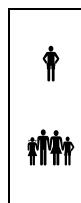
Report out exercise information or record the results of a brainstorm.



Refer to activity material.

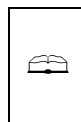


Allow Time

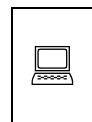


Indicate the beginning of an individual activity or exercise.

Indicate the beginning of a group activity or exercise.



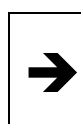
Read



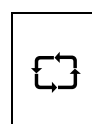
Web Sites for additional information.



Summarize an activity or check for understanding.



Transition to the next topic.



Summarize the course

# YOUR OWN HOME

## Objectives



By the end of this course, participants will be familiar with the process for getting homeownership financing. To achieve this objective, participants will be able to:

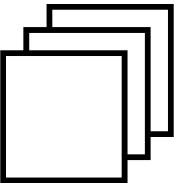
- Describe the benefits and pitfalls of renting versus owning a home
- Ask questions to determine readiness to buy a home
- Identify different mortgage programs
- Recognize basic terms used in a mortgage transaction

## Time

**90 Minutes**

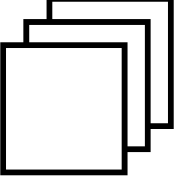


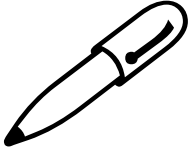

# Course Introduction

Instructor Cue	Instructions
	<ul style="list-style-type: none"> <li>▶ Before the start of the class, hand out the following materials to each participant:               <ul style="list-style-type: none"> <li>● Participant Take-Home Guide</li> <li>● Name tent</li> <li>● Pencil or pen</li> </ul> </li> </ul>
<div data-bbox="196 730 570 1140" style="border: 1px solid black; padding: 10px;"> <p style="color: blue; text-align: center;">YOUR OWN HOME</p> <hr style="width: 20%; margin: 10px auto;"/> <p style="color: red; text-align: center;">Overheads</p> <div style="display: flex; justify-content: center; align-items: center;">  </div> <p style="color: red; text-align: center;">Financial Education</p> <p style="text-align: right;">1</p> </div> <p style="text-align: center;">Slide 1</p>	<ul style="list-style-type: none"> <li>▶ Show Slide 1 (Your Own Home).</li> <li>▶ <b>“Welcome to Your Own Home!”</b> Introduce yourself (e.g., name, experience as an instructor or banker).</li> </ul>
<div data-bbox="196 1260 570 1722" style="border: 1px solid black; padding: 10px;"> <p style="color: blue; text-align: center;">You Will Know</p> <hr style="width: 20%; margin: 10px auto;"/> <ul style="list-style-type: none"> <li>● The benefits and pitfalls of renting versus owning</li> <li>● How to determine your readiness to buy a home</li> <li>● Different mortgage programs</li> <li>● Basic terms used in the mortgage process</li> </ul> <p style="text-align: right;">2</p> </div> <p style="text-align: center;">Slide 2</p>	<ul style="list-style-type: none"> <li>▶ Show Slide 2 (You Will Know).</li> <li>▶ Explain: <b>“By the end of the course, you will be familiar with the process for getting homeownership financing. You will know:</b> <ul style="list-style-type: none"> <li>● <b>The benefits and pitfalls of renting versus owning a home</b></li> <li>● <b>How to determine your readiness to buy a home</b></li> <li>● <b>Different mortgage programs, and</b></li> <li>● <b>Basic terms used in the mortgage process.”</b></li> </ul> </li> </ul>



Instructor Cue	Instructions
	<ul style="list-style-type: none"> <li>▶ Show the Participant Take-Home Guide to the class.</li> <li>▶ Explain: <b>“Each of you has a copy of the Your Own Home Take-Home Guide which contains highlights of the course. We will be using this throughout the course. Take it home and use it as a reference.”</b></li> </ul>







## What Do You Know

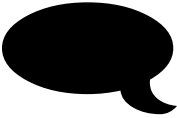



Instructor Cue	Instructions
	<ul style="list-style-type: none"> <li>▶ Explain: “Take out the last page of your Take-Home Guide, the <i>What Do You Know</i> form.”</li> </ul>
	<ul style="list-style-type: none"> <li>▶ Explain: “The <i>What Do You Know</i> form lets you measure how much you have learned from the course.”</li> </ul>
	<ul style="list-style-type: none"> <li>▶ Read the instructions and walk the participants through each statement.</li> <li>▶ Explain: “Complete the Before-the-Course column only. You will complete the other column at the end of the course.”</li> </ul>
	<ul style="list-style-type: none"> <li>▶ Provide enough time for participants to complete the <i>What Do You Know</i> form. (2-3 minutes)</li> <li>▶ Have participants put these forms aside until the end of the course when they will complete the <i>After-the-Course</i> column.</li> </ul>
	<ul style="list-style-type: none"> <li>▶ Transition: “Now, let’s talk about the homebuying process.”</li> </ul>

## To Rent or Own

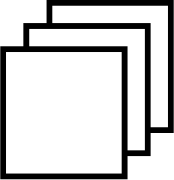
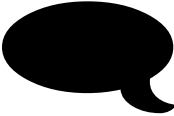
Instructor Cue	Instructions
	<ul style="list-style-type: none"><li>▶ Explain: <b>“In this course, we will follow Patricia’s experience in becoming a first-time homeowner.</b></li></ul> <p><b>After completing her job training program, Patricia got a full time job as an administrative assistant. She will be making \$30,000 a year, or \$2,500 a month.</b></p> <p><b>Patricia has been living with her parents and wants to get out on her own, The first thing Patricia must do is decide whether she should rent or buy a home.”</b></p>
	<ul style="list-style-type: none"><li>▶ Ask: <b>“What do you think the benefits are of renting a home?”</b></li><li>▶ Acknowledge participants’ responses.</li></ul>



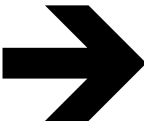
Instructor Cue	Instructions
<div data-bbox="198 283 570 724"> <h3>Renting</h3> <hr/> <ul style="list-style-type: none"> <li>● No property maintenance</li> <li>● You are only under contract for one year or less</li> <li>● You do not have the costs of taxes and insurance</li> </ul> <div data-bbox="378 569 526 695">  </div> <p>3</p> </div> <p data-bbox="354 724 443 758">Slide 3</p>	<ul style="list-style-type: none"> <li>▶ Show Slide 2 (Renting).</li> <li>▶ Explain: <b>“Some of the benefits of renting a home are:</b> <ul style="list-style-type: none"> <li>● <b>Property maintenance is the responsibility of the landlord.</b></li> <li>● <b>You are only under a rental contract for one year or less, and</b></li> <li>● <b>You do not have other costs associated with owning a home, such as property taxes or homeowner’s insurance.</b></li> </ul> </li> </ul> <p data-bbox="667 848 1395 1052"><b>Renter’s insurance protects your belongings if there is a fire or theft in the apartment or home you are renting. This type of insurance is cheaper than homeowner’s insurance.”</b></p>
	<ul style="list-style-type: none"> <li>▶ Explain: <b>“Renting also has some challenges:</b> <ul style="list-style-type: none"> <li>● <b>When you rent, your money is not building any equity.</b></li> <li>● <b>Your rent might increase, and</b></li> <li>● <b>You might not be able to renew your rental contract and then will have to find a new place to live.”</b></li> </ul> </li> </ul>

Instructor Cue	Instructions
	<ul style="list-style-type: none"> <li>▶ Ask: <b>“What do you think are the benefits of owning a home?”</b></li> <li>▶ Acknowledge participants’ responses.</li> </ul>
<div data-bbox="199 625 570 1129" style="border: 1px solid black; padding: 10px;"> <p><b>Owning a Home</b></p> <hr/> <ul style="list-style-type: none"> <li>● You can build equity</li> <li>● A home usually increases in value</li> <li>● The home is yours</li> <li>● Your mortgage and interest is tax deductible</li> <li>● You can pass your home on to a family member</li> </ul>  </div> <p style="text-align: right;">4</p> <p style="text-align: center;">Slide 4</p>	<ul style="list-style-type: none"> <li>▶ Show Slide 2 (Owning a Home).</li> <li>▶ Explain: <b>“Some of the benefits of owning a home are:</b> <ul style="list-style-type: none"> <li>● <b>You can build equity. Equity refers to the value of the home minus the debt you own on it. As you pay down the loan, you build up equity.</b></li> <li>● <b>One of the benefits of equity is that you can borrow against it for many purposes, usually at a lower interest rate. For example, you can pay for a child or other family member’s education.</b></li> <li>● <b>Homes generally increase in value over time, so it can be a good way to invest your money.</b></li> <li>● <b>Once your mortgage is paid in full, the home is yours. A mortgage is a loan to purchase a home.</b></li> <li>● <b>Homeownership reduces the amount of income tax you owe since mortgage interest and property taxes are deductible, and</b></li> <li>● <b>You can pass your home on to family members.”</b></li> </ul> </li> </ul>



Instructor Cue	Instructions
	<p>► Explain: <b>“Homeownership also has some challenges.”</b></p>
	<p>► Ask: <b>“What do you think the challenges might be?”</b></p> <p>► Acknowledge participants’ responses.</p>
	<p>► Explain: <b>“When you own a home, property maintenance and upkeep are your responsibility. You are also responsible for the additional costs of:</b></p> <ul style="list-style-type: none"> <li>● Homeowner’s insurance and real estate taxes</li> <li>● Homeowner’s association fees, in some cases.</li> </ul> <p><b>When you own a home, it is not as easy to move as when you rent. You will typically have to sell or rent your home before you can afford to buy or rent another one.</b></p> <p><b>It is also important to understand you can lose your home and your investment in it if you do not make timely mortgage payments.”</b></p>
	<p>► Transition: <b>“Patricia has considered her situation and has decided to find out more about homeownership. Let’s see if Patricia is really ready to buy a home.”</b></p>

## Am I Ready to Buy a Home?

Instructor Cue	Instructions
	<ul style="list-style-type: none"> <li>▶ Explain: “Turn to the <i>Am I Ready to Buy a Home?</i> section on page 4 of your Take-Home Guide.</li> </ul> <p>Use these questions to help you decide if you are ready to buy a home.”</p> <ul style="list-style-type: none"> <li>▶ Read through the questions.</li> </ul>
	<ul style="list-style-type: none"> <li>▶ Explain: “Lenders prefer that you have 20% of the purchase price for a downpayment. For example, 20% of a \$50,000 mortgage is \$10,000. However, there are many special programs that require a smaller or no downpayment.</li> </ul> <p>If you make a downpayment of less than 20%, you will generally have to purchase Private Mortgage Insurance(PMI) or participate in a government mortgage program.</p> <p>Mortgage insurance protects the lender if you default on the loan. It is an additional cost of the mortgage.</p> <p>If you answer yes to the questions in the Take-Home Guide, you might be ready to buy a home. If you answer no to any of the questions, concentrate on strengthening those areas.</p> <p>To strengthen those areas, look for homebuyer education classes in your area. They are a good source of information and will help you prepare for owning a home.”</p>

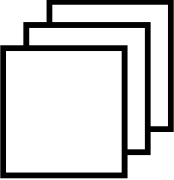
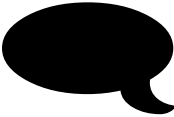
Instructor Cue	Instructions
	<p>► Explain: <b>“There are many other questions to answer when you decide to explore homeownership. For example:</b></p> <ul style="list-style-type: none"> <li>● <b>Where do you want to live?</b></li> <li>● <b>What kind of school and neighborhood do you want for your children?</b></li> <li>● <b>How much space do you need?</b></li> </ul> <p><b>While we do not have time to discuss all of these questions in this course, they are important issues to consider when buying a home.”</b></p>
	<p><b>“Visit the Indiana Department of Financial Institutions’ Web Site on First Time Homebuyer’s Common Questions at:</b></p> <p><a href="http://www.dfi.state.in.us/conscredit/firsttime_homebuyer.htm">http://www.dfi.state.in.us/conscredit/firsttime_homebuyer.htm</a>.”</p>
	<p>► Transition: <b>“By asking herself the list of questions, Patricia thinks she is ready to own a home; but she is not sure if she has enough money for the downpayment.</b></p> <p><b>She realizes she needs to learn more. Patricia decided to check with her local bank to see if there are any programs that might help her.”</b></p>

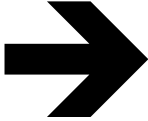
## Homebuyer Assistance Programs?

Instructor Cue	Instructions
	<p>► Explain: <b>“There are a number of different programs available for first-time homebuyers. Many people start the homebuying process with one of these programs or with a community organization.</b></p> <p><b>For example, in an Individual Development Account, or IDA program, participating organizations match your savings contributions to help you save for a downpayment or closing costs.</b></p> <p><b>All homeownership IDA programs require you to complete financial education classes.”</b></p> <p>► <b>Instructor Note:</b> Closing costs are various charges associated with the transfer of property. The lender must disclose these costs to you.</p>
	<p>► Explain: <b>“Many homebuyer assistance programs are offered by cities or local government offices. Many banks offer loan products in conjunction with these agencies.</b></p> <p><b>Ask your lender or local government about the homebuyer assistance programs they offer.”</b></p>







Instructor Cue	Instructions
<div data-bbox="191 275 553 747"> <h3>Characteristics of Government Programs</h3> <ul style="list-style-type: none"> <li>● Zero or low down payments</li> <li>● Flexible underwriting standards</li> <li>● Longer payment terms</li> <li>● Requirements for homeowner education</li> <li>● Some restrictions</li> </ul> </div> <div data-bbox="542 707 553 726">5</div> <div data-bbox="354 758 440 785">Slide 5</div>	<div data-bbox="618 233 1446 1923"> <ul style="list-style-type: none"> <li>▶ Show Slide 5 (Characteristics of Government Programs).</li> <li>▶ Explain: <b>“Government loan programs are generally targeted to individuals and families with a modest income. They will have one or more of these characteristics:</b> <ul style="list-style-type: none"> <li>● <b>Zero or low downpayment requirements. For example, some require 3% downpayment; some require 5% downpayment with 3% having to come from the borrower and the other 2% coming from gifts or other grants.</b></li> <li>● <b>More flexible underwriting standards. This means the lender will consider non-traditional forms of credit history, such as rent or utility payments and higher ratios of debt compared to your income.</b></li> <li>● <b>Longer payment terms than typical mortgage loans. This means your monthly payment will be lower.</b></li> <li>● <b>The program might require homeowner education. Homeowner education programs help people understand the homebuying process. These programs cover such things as budgeting, finding a home, getting a loan, and maintaining a home.</b></li> <li>● <b>One example is the Homebuyer Education Learning Program (HELP) for FHA loans. You might be eligible for a reduction in initial FHA mortgage insurance under this program.</b></li> <li>● <b>Government program restrictions might include purchase price limitations, service charges, and higher loan origination fees.”</b></li> </ul> </li> </ul> </div>



Instructor Cue	Instructions
	<p>► Explain: “<b>See the <i>Homebuyer Assistance Programs</i> section in your Take-Home Guide on page 10 for additional information on government mortgage loan programs.</b>”</p>
	<p>► Explain: “<b>Patricia found an IDA program that will match her savings to help with the downpayment and closing costs for her first home.</b></p> <p><b>She talked to a nonprofit organization to get more information. She learned the program requires her to attend home-ownership counseling and to set up a savings account at a participating bank.</b></p> <p><b>When she opened her IDA, she found out the program would match \$3 to her \$1 with a maximum match of \$5,000.</b></p> <p><b>Patricia was already saving \$25 a month and had \$600 in a savings account. She decided to find ways to reduce her spending and save more every month to build up her savings account. One way she planned to reduce her spending was to bring her lunch to work more often.</b></p> <p><b>Patricia also started attending homeowner-ship classes to help prepare for her investment.”</b></p>


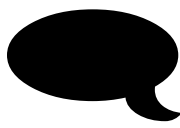

Instructor Cue	Instructions										
<div data-bbox="191 262 553 737"> <p><u>Patricia's Savings</u></p> <table border="1" data-bbox="235 405 524 621"> <tr><td></td><td></td></tr> <tr><td></td><td></td></tr> <tr><td></td><td></td></tr> <tr><td></td><td></td></tr> <tr><td></td><td></td></tr> </table> <p>6</p> </div> <p>Slide 6</p>											<ul style="list-style-type: none"> <li>▶ Show Slide 6 (Patricia's Savings).</li> <li>▶ Explain: <b>“Patricia is now saving \$50 a month. After 30 months she will have saved \$1,500 of her own money. The organization will have matched her 3 to 1, which gives her a total savings of \$6,000 in the IDA program.</b></li> </ul> <p><b>She still has the \$600 she saved prior to the IDA program. This means she has a total of \$6,600 for a downpayment and closing costs.”</b></p>
	<ul style="list-style-type: none"> <li>▶ Transition: <b>“Patricia is learning a lot through her homebuyer education program.</b></li> </ul> <p><b>Next, we'll talk about some of the information she found out about mortgages.”</b></p>										

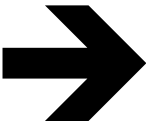
# Mortgage Terms

Instructor Cue	Instructions
<div data-bbox="207 394 524 520"> <p>Components of a Mortgage Loan Payment</p> </div> <div data-bbox="207 541 354 693"> <ul style="list-style-type: none"> <li>● P = Principal</li> <li>● I = Interest</li> <li>● T = Taxes</li> <li>● I = Insurance</li> </ul> </div> <div data-bbox="337 693 443 798">  </div> <div data-bbox="516 798 532 819"> <p>7</p> </div> <div data-bbox="349 846 443 877"> <p>Slide 7</p> </div>	<div data-bbox="617 310 1437 1060"> <ul style="list-style-type: none"> <li>▶ Show Slide 6 (Patricia's Savings).</li> <li>▶ Explain: <b>"Your mortgage payment will reflect the following costs:</b> <ul style="list-style-type: none"> <li>● <b>P-Principal.</b> The amount applied to the outstanding balance of the loan.</li> <li>● <b>I=Interest.</b> The amount of the charge for borrowing money.</li> <li>● <b>T=Taxes.</b> 1/12<sup>th</sup> of the estimated annual real estate taxes on the home.</li> <li>● <b>I=Insurance.</b> 1/12<sup>th</sup> of the annual homeowner's insurance premium. This figure will include flood insurance and private mortgage insurance (PMI) if required.</li> </ul> </li> </ul> </div> <div data-bbox="625 1102 1437 1360"> <p><b>You will most likely pay the taxes and insurance along with the principal and interest to the lender every month. In some cases, however, the lender may allow you the option to pay the taxes and homeowner's insurance separately."</b></p> </div>
<div data-bbox="284 1501 462 1617">  </div>	<div data-bbox="617 1444 1437 1743"> <ul style="list-style-type: none"> <li>▶ Explain: <b>"If the lender requires you to pay the taxes and insurance as part of your mortgage payment, the lender will open an escrow account to hold this money until the payments are due. Many people consider this convenient because they don't have to make separate payments."</b></li> </ul> </div>

Instructor Cue	Instructions
	<p>► Explain: “If the lender allows you to pay the taxes and insurance separately, you will usually get a quarterly or semi-annual property tax bill. You will have to pay a separate insurance premium, usually annually, for homeowner’s insurance.</p> <p>Some people prefer to do this because it allows them to keep the money under their own control in their own savings or investment accounts to earn interest until the payments are due.</p> <p>However, in many cases it is better to pay for these items monthly with your loan payment. That way, you don’t have to worry about having the money available when it’s needed.”</p>
<div data-bbox="188 1098 570 1575"> <h3 data-bbox="212 1129 444 1163">The Three Cs</h3> <ul data-bbox="212 1213 553 1346" style="list-style-type: none"> <li>● Capacity = ability to meet your payments</li> <li>● Capital = Savings and assets for collateral</li> <li>● Character = Credit history</li> </ul>  <p data-bbox="516 1535 529 1554">8</p> </div> <p data-bbox="354 1583 440 1612">Slide 8</p>	<p>► Show Slide 8 (The Three Cs).</p> <p>► Explain: “There are three factors lenders use to qualify you for a loan. They are know as the Three Cs:</p> <ul style="list-style-type: none"> <li>● <b>CAPACITY</b> is your present and future ability to meet your payment obligations.</li> <li>● <b>CAPITAL</b> refers to your savings and other assets that can be used as collateral for a loan.</li> <li>● <b>CHARACTER</b> refers to how you have paid your bills or debts in the past. Your credit report is one tool lenders use to consider your willingness to repay your debts. How you repay your debts is important because a mortgage is most likely the largest loan you will obtain.”</li> </ul>

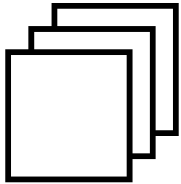
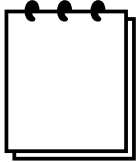

Instructor Cue	Instructions
	<p>▶ Refer interested participants to the <b><i>To Your Credit</i></b> course for more information about the importance of credit reports.</p>
	<p>▶ Ask: “<b>What do you think pre-qualification means?</b>”</p> <p>▶ Acknowledge participants’ responses.</p>
<div data-bbox="191 766 570 1249"> <p>Pre-Qualification</p> <ul style="list-style-type: none"> <li>● How much mortgage you can afford</li> <li>● Informal, no paperwork, no obligation</li> <li>● Figure is not exact</li> </ul> <p>9</p> </div> <p>Slide 9</p>	<p>▶ Show Slide 9 (Pre-Qualification).</p> <p>▶ Explain: “<b>Pre-qualification is an informal way to find out how much mortgage you can obtain. You can be pre-qualified by giving the lender some basic information over the phone. Such as:</b></p> <ul style="list-style-type: none"> <li>● Employment</li> <li>● Income</li> <li>● Downpayment information, and</li> <li>● Outstanding debts.</li> </ul> <p><b>No paperwork is required. There is no obligation. The pre-qualified amount is not exact; it is only a ballpark figure.”</b></p>
	<p>▶ Ask: “<b>Another term you may hear when discussing mortgages is pre-approval. What do you think this means?</b>”</p> <p>▶ Acknowledge participants’ responses.</p>



Instructor Cue	Instructions
<p><b>Pre-Approval</b></p> <hr/> <ul style="list-style-type: none"> <li>● Commitment from the lender to lend you money</li> <li>● Tells you how much you can obtain</li> <li>● Tells the seller you are serious</li> </ul>  <p>10</p> <p>Slide 10</p>	<p>► Show Slide 10 (Pre-Approval).</p> <p>► Explain: <b>“Pre-approval is a commitment from the lender to lend you money. The pre-approval process lets you know how much you can obtain and tells sellers you are prepared to buy a home.”</b></p>
	<p>► Explain: <b>“To obtain pre-approval, you need to assemble financial records and fill out an application. You will usually need:</b></p> <ul style="list-style-type: none"> <li>● Pay stubs for the last 2-3 months and proof of any additional income.</li> <li>● W-2 forms &amp; Tax returns for the last 2 years.</li> <li>● Information about your assets and long-term debts.</li> <li>● Recent bank statements.”</li> </ul>
	<p><b>“Visit the Indiana Department of Financial Institutions’ Web Sites on Applying for Mortgage Loans at:</b></p> <p><a href="http://www.dfi.state.in.us/conscredit/Clmortgage_infor.htm#a">http://www.dfi.state.in.us/conscredit/Clmortgage_infor.htm#a</a>. <b>and on Mortgage Loans at</b></p> <p><a href="http://www.dfi.state.in.us/conscredit/Clmortgage_infor.htm#b">http://www.dfi.state.in.us/conscredit/Clmortgage_infor.htm#b</a>.”</p>


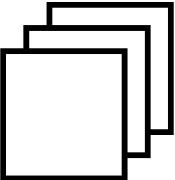

Instructor Cue	Instructions
	<p>► Transition: <b>“In the middle of her home-ownership training, a banker worked with Patricia and “pre-qualified” her for a maximum mortgage amount of \$75,000. She can now start looking for her own home.</b></p> <p><b>Let’s talk about how the bank came up with that figure.”</b></p>





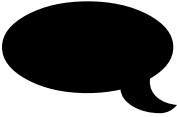

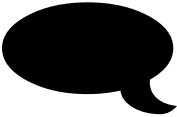
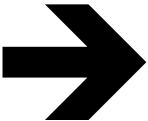
## How Much Mortgage Can I Afford?

Instructor Cue	Instructions
	<p>► Explain: “Turn to page 6 of your Take-Home Guide. You can follow along as I explain the calculation.”</p>
	<p>► Write the following example on chart paper.</p> <p><b>Annual income = \$30,000</b></p> <p><b><math>\\$30,000 \times 2 = \\$60,000</math></b></p> <p><b><math>\\$30,000 \times 2\frac{1}{2} = \\$75,000</math></b></p> <p>► Explain: “As a rule of thumb, many people estimate they can afford a mortgage of 2 or 2½ times their household income.</p> <p><b>For example, if Patricia’s annual household income is \$30,000 , she might be able to afford a mortgage of \$60,000 to \$75,000.</b></p> <p><b>Keep in mind that just because you qualify for that amount, it does not mean you can afford or be comfortable with those monthly payments. You need to consider your particular circumstances and your future financial needs and goals.”</b></p>
	<p><b>“Visit the Indiana Department of Financial Institutions’ Web Site on How Much Home Can You Afford at:</b></p> <p><b><a href="http://www.dfi.state.in.us/conscredit/how_much_home_afford.htm">http://www.dfi.state.in.us/conscredit/how_much_home_afford.htm</a>.”</b></p>


Instructor Cue	Instructions
	<p>► Explain: “<b>Lenders look at debt-to-income ratios when they consider your application or pre-qualification for a mortgage loan.</b></p> <p><b>They consider monthly housing expenses as a percentage of income and total monthly debt as a percentage of income. Both ratios are important factors in determining whether the lender will make the loan.</b></p> <p><b>Lenders usually require the principle, interest, taxes, and insurance (PITI) or your housing expenses, to be less than or equal to 25% to 28% of monthly gross income. Lenders call this the ‘front-end’ ratio.</b></p> <p><b>Lenders usually require housing expenses plus long-term debt to be less than or equal to 33% or 36% of monthly gross income. Lenders call this the ‘back-end’ ratio.</b></p> <p><b>In other words, since Patricia’s monthly gross income is \$2,500, or \$30,000 annually, her mortgage payments should be \$700 or less and the combination of her mortgage, \$700 and other long-term debt should be no more than \$900.”</b></p>
	<p>► Explain: “<b>Long-term debt is outstanding debt with a remaining term of more than ten or eleven months. It can include student loans, credit cards, car loans, and other non-housing expenses.”</b></p>

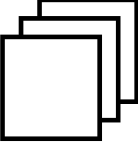
Instructor Cue	Instructions
	<p>► Ask: <b>“What else do you think affects how much mortgage you can afford?”</b></p> <p>Acknowledge participants’ responses.</p>
	<p>► Explain: <b>“Turn to page 7 of your Take-Home Guide.</b></p> <p><b>First, the length, or term of the mortgage affects how much mortgage you can afford</b></p> <p><b>Most mortgages are for either 15- or 30-year terms. A 30-year mortgage is the most common because the mortgage payments are lower.</b></p> <p><b>A 30-year mortgage allows you to borrow more money, but will generally have a slightly higher interest rate than a 15-year mortgage.</b></p> <p><b>Over the life of the loan, you pay a lot more interest with a 30-year mortgage than with a 15-year mortgage.”</b></p>
	<p>► Explain: <b>“For example, if you borrowed \$75,000 for 15 years at 7.5%, your monthly principal and interest payment would be \$695. If you borrowed \$75,000 for 30 years at 8%, your monthly payment would be \$550.”</b></p>



Instructor Cue	Instructions
	<p>► Explain: “Whether your mortgage is variable or fixed will also affect how much mortgage you can afford.</p> <p>If you have a fixed rate loan, your interest rate stays the same for the term of the loan. Your payments are predictable and are not affected by interest rate changes.</p> <p>If you have a variable rate loan, the interest rate can increase or decrease during the term of the loan. You might have a low rate at the beginning of the term.</p> <p>However, be aware that the rate and your payment can increase significantly throughout the term of the loan.”</p>
	<p>► Ask: “What mortgage option do you think would be good for Patricia? Why?”</p> <p>The following points might be raised in the discussion: (Spend up to 5 minutes)</p> <ul style="list-style-type: none"> <li>● 30-year mortgage have higher interest rates but monthly payments are lower.</li> <li>● 15-year mortgages have a lower interest rate and you can build equity faster.</li> <li>● A fixed rate mortgage might be a good option if you want your payments to be predictable and easier to budget.</li> <li>● A variable rate mortgage might be a good option if you think you will have a steady rise in income or if you plan to sell your home soon. You might be able to take advantage of lower initial interest rates.”</li> </ul>

Instructor Cue	Instructions
	<p>► Explain: <b>“There is no right or wrong answer since we don’t have enough information about Patricia. It is only important you understand the advantages and disadvantages of the different mortgage options.”</b></p>
	<p><b>“Visit the Indiana Department of Financial Institutions’ Web Site on Do Homework Before Applying for a Home Loan at:</b>  <a href="http://www.dfi.state.in.us/conscredit/do_homework_before_applying_for_.htm">http://www.dfi.state.in.us/conscredit/do_homework_before_applying_for_.htm</a>.”</p>
	<p>► Explain: <b>“At the end of the 30 months of saving and attending many homeowner education classes, Patricia was ready to buy a home.</b></p> <p><b>She decided she wanted a fixed payment for a lower amount so she chose a 30-year fixed rate loan. She also decided she wanted to have the bank pay her taxes and insurance through an escrow account.”</b></p>
	<p>► Transition: <b>“Now Patricia knows the maximum mortgage she can afford. Let’s talk about how she might shop for the best deal.”</b></p>



## Shopping for the Best Deal


Instructor Cue	Instructions
<div data-bbox="207 405 492 489"> <p>Shop, Compare, Negotiate!</p> </div> <hr/> <ul style="list-style-type: none"> <li>● Check newspapers and internet for terms and rates</li> <li>● Negotiate the best deal you can</li> <li>● Let lenders compete</li> <li>● Get the costs in writing</li> </ul> <div data-bbox="513 810 537 831">11</div> <div data-bbox="342 856 448 888">Slide 11</div>	<ul style="list-style-type: none"> <li>▶ Show Slide 11 (Shop, Compare, Negotiate!).</li> <li>▶ Discuss the tips on the slide</li> </ul> <ul style="list-style-type: none"> <li>● <b>“Check advertisements in local newspapers and on the Internet to get an idea of the best terms and rates. Be mindful, however, that rates change frequently and you may not be able to get the published rate. Contact several lenders on the same day to compare quotes.</b></li> <li>● <b>Negotiate the best deal you can. Ask the lender for better terms than originally quoted. Lenders might offer different prices to different borrowers even with the same qualification. Ask the lender to waive or reduce one or more of the fees, or agree to a lower rate or fewer points and make sure they do not lower one fee and raise another in its place.</b></li> <li>● <b>Do not be afraid to let lenders compete for your business by letting them know you are shopping for the best deal.</b></li> <li>● <b>Make sure the lender gives you all the costs of the loan in writing.”</b></li> </ul>
	<p><b>“Visit the Indiana Department of Financial Institutions’ Web Sites on Using Ads to Shop for Home Financing at:</b></p> <p><a href="http://www.dfi.state.in.us/conscredit/AdsShop.html">http://www.dfi.state.in.us/conscredit/AdsShop.html</a> <b>and</b></p> <p><b>Using the Internet to Get a Mortgage Loan at:</b></p> <p><a href="http://www.dfi.state.in.us/conscredit/using_the_internet_to_get_a_mort.htm">http://www.dfi.state.in.us/conscredit/using_the_internet_to_get_a_mort.htm</a>.”</p>


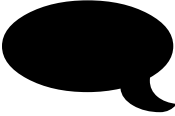

Instructor Cue	Instructions
	<p>► Explain: “Turn to the <i>Mortgage Shopping Worksheet</i> on page 8 of your Take-Home Guide.</p> <p>The <i>Mortgage Shopping Worksheet</i> will help you choose the mortgage that’s right for you.</p> <p>Some of this information will be provided in initial disclosures lenders are required to give you upon application.</p> <p>For example, Truth in Lending requires the lender or broker to disclose estimates of how much the loan will cost.</p> <p>The Real Estate Settlement Procedures Act requires the lender or broker to give you an estimate of all fees so you have an idea of how much those costs will be.</p> <p>These disclosures are not required until you apply for a home loan. To compare terms before you fill out an application, ask the lender for the information listed on the worksheet.</p> <p>Let’s talk about the different sections of this worksheet.”</p>

Instructor Cue	Instructions
	<p>► Explain: “In section A, record basic information about loan options. Be sure to compare the APRs of different loans from different lenders.</p> <p>The APR includes any points changed. A point is the amount equal to 1% of the loan balance paid to the broker or lender for processing your loan.</p> <p>The APR is a measure of the cost of your loan expressed as a yearly percentage rate, such as 10% or 11%.”</p>
	<p>► Explain: “In section B, you will compare information about the fees from different lenders. These fees are some of the standard fees included in the mortgage loan process.</p> <p>In section C, you will compare closing costs. Closing costs are associated with the transfer of property. These costs you ultimately pay should be similar or less than the estimate of costs you were given at the time of application.</p> <p>In section D, you will compare the total of the fees from sections A, B, and C. It is important to know that when shopping for a mortgage, lenders give you estimates.”</p>





Instructor Cue	Instructions
	<p>► Explain: “In section E, you will record and compare the answers to other questions about the loan.</p> <p><b>Prepayment penalties – Some mortgages charge a fee if you pay the loan off within a few years.</b></p> <p><b>Lock-ins – A lock-in allows the borrower to guarantee the interest rate will not increase or decrease before the loan closes.</b></p> <p><b>Adjustable rate loans require additional disclosures that contain the listed items such as the maximum the interest rate can increase or decrease each month, year, or during the life of the loan. The lender must also disclose the index for rate changes.</b></p> <p><b>The index is the base interest rate used to calculate the interest rate that will be charged on a variable rate loan. The rate you will pay on a variable rate loan is usually a set percentage above the base rate, or the index.</b></p> <p><b>Credit life insurance pays off the mortgage if anything happens to the borrower. The lender has to disclose all the details if you choose this option.”</b></p>
	<p>► Ask: “Are there any questions about the worksheet?”</p> <p>Answer any questions participants have.</p>

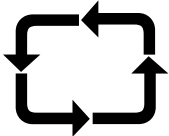

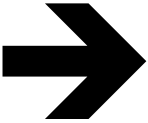
Instructor Cue	Instructions				
	<ul style="list-style-type: none"><li>► Explain: “Thanks to the worksheet and what Patricia learned in her homebuyer class, Patricia found the best deal for her. She found a townhouse in a neighborhood close to her family.”</li></ul>				
<div><div>Patricia's Mortgage</div><div><table><tr><td></td></tr><tr><td></td></tr><tr><td></td></tr><tr><td></td></tr></table></div><div>12</div></div> <div>Slide 12</div>					<ul style="list-style-type: none"><li>► Show Slide 12 (Patricia's Mortgage).</li><li>► Discuss the tips on the slide</li></ul> <p>“Patricia qualified for a 5% downpayment mortgage with an interest rate of 8% for 30 years. Her monthly principal and interest payment is \$488 and her estimated taxes and insurance payments are \$88. Because she only put 5% down, she also has to pay \$55 a month for PMI.</p> <p>Patricia wants to buy a townhouse so she does not have to worry about taking care of her roof or the outside of her house. However, this convenience will cost her \$65 a month in maintenance charges.</p> <p>Patricia's total monthly housing expenses are \$696 or 27.84% of her monthly income of \$2,500.</p> <p>Patricia also has a car loan payment of \$150 and two credit card payments totaling \$50.</p> <p>The total of Patricia's monthly housing expenses and long-term debt is \$896 or 35.84% of her monthly income.”</p>

Instructor Cue	Instructions
	<ul style="list-style-type: none"> <li>▶ Ask: <b>“Does Patricia’s debt-to-income ratio fall within most lender’s guidelines?”</b></li> <li>▶ Answer: <b>Yes. “Patricia’s housing expenses represent less than 28% of her monthly income. Her total housing and long-term debt represents less than 36% of her monthly income.”</b></li> </ul>
	<ul style="list-style-type: none"> <li>▶ Explain: <b>“Patricia’s debt-to-income ratios meet the guidelines. If your debt-to-income exceeds the recommended ratios, you might still qualify for the loan if you:</b> <ul style="list-style-type: none"> <li>● <b>Have a demonstrated ability to pay more toward housing expenses; for example, if you are paying more in rent than what your mortgage payment will be or if you decrease your monthly housing expenses.</b></li> <li>● <b>Show evidence of acceptable credit history or limited credit use.</b></li> <li>● <b>Will receive funding assistance provided by an organization, such as through an IDA program, like the one Patricia used.</b></li> <li>● <b>Make a larger downpayment, or</b></li> <li>● <b>Have cash reserves, such as savings and investment accounts.”</b></li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>▶ Transition: <b>“Patricia found the perfect townhouse and was approved for the loan. She has completed a major step toward owning her own home. Before the home is hers, Patricia must complete a few more steps.”</b></li> </ul>


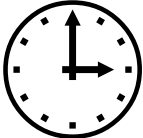

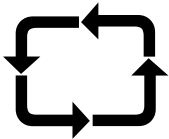
## Closing The Mortgage Loan

Instructor Cue	Instructions
	<p>► Explain: <b>“One of the most important steps is to review the HUD-1 settlement statement the day before closing.</b></p> <p><b>This is to ensure the interest rates and other terms are what Patricia and her lender agreed upon and to prepare for the closing where she will meet with representatives to sign the finance documents.</b></p> <p><b>It is easy to be overwhelmed by the paperwork at closing. Patricia knew she had to take her time and not sign anything she did not understand.</b></p> <p><b>Patricia was really glad she found out about the IDA program because the required homebuyer education program prepared her to become a homeowner. Patricia has taken a big step towards financial independence.”</b></p>
	<p><b>“Visit the Indiana Department of Financial Institutions’ Web Site on Mortgage Loan Closing at:</b></p> <p><b><a href="http://www.dfi.state.in.us/conscredit/CImortgage_infor.htm##c">http://www.dfi.state.in.us/conscredit/CImortgage_infor.htm##c</a>.”</b></p>

## Course Summary

Instructor Cue	Instructions
	<p>► Summarize the course: <b>“Congratulations! You’ve completed the <i>Your Own Home</i> course. We’ve covered a lot of information including:</b></p> <ul style="list-style-type: none"> <li>● The benefits and pitfalls of renting vs. owning your won home</li> <li>● Questions to ask to determine your readiness to buy a home</li> <li>● Different mortgage loan programs</li> <li>● How to determine how much mortgage you can afford</li> <li>● Mortgage options, and</li> <li>● How to shop for the best deal.</li> </ul> <p>► You should now be familiar with the process of homeownership financing.”</p>
	<p>► Ask: <b>“Are there any questions?”</b></p> <p>► Answer any questions as time permits.</p>
	<p>► Transition: <b>“To improve the course, we will need your feed back. The After-the – Course column on the <i>What Do You Know</i> form and <i>Course Evaluation</i> will identify changes that can make this course better.”</b></p>

## End of Course Evaluation

Instructor Cue	Instructions
	<ul style="list-style-type: none"> <li>▶ Explain: <b>“Please complete the After-the Course column and the Course Evaluation. These forms are the last two pages of your Take-Home Guide.”</b></li> </ul>
	<ul style="list-style-type: none"> <li>▶ Allow time for participants to complete it.</li> <li>▶ Collect the What Do You Know and Course Evaluation forms.</li> </ul>
	<p><b>“Visit the Indiana Department of Financial Institutions’ Web Site on Mortgage Information at:</b></p> <p><a href="http://www.dfi.state.in.us/conscredit/Clmortgage_infor.htm">http://www.dfi.state.in.us/conscredit/Clmortgage_infor.htm</a>.”</p>
	<ul style="list-style-type: none"> <li>▶ Conclusion: <b>“Great job on completing the <i>Your Own Home</i> course! Thank you for participating.”</b></li> </ul>